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THE OFFICE OF THE STATE AUDITOR

ANDREA "ANDY" BENNETT
STATE AUDITOR

THE UNIVERSITY OF MONTANA

LIMITED SCOPE
OPERATIONAL AUDIT
CONTINGENT REVOLVING FUNDS

Fiscal Year 1988

PLEASE RETURN

STATE AUDITOR
STATE OF MONTANA

Andrea "Andy" Bennett
STATE AUDITOR

COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

November 23, 1988

Mrs. Andrea "Andy" Bennett
State Auditor
Room 270
Mitchell Building
P.O. Box 4009
Helena, MT 59620

Dear Mrs. Bennett

This is my report on the Limited Scope Operational Audit performed on the contingent revolving funds at the University of Montana. This report contains eight recommendations aimed at improving management practices and controls relating to the contingent revolving funds at the University of Montana.

We would like to thank the university management and staff for their cooperation and assistance provided during the audit.

Respectfully submitted,

Joe W. Lundberg
Internal Auditor
Office of the State Auditor

JL/vf(317)

Sam W. Mitchell Building/P.O. Box 4009/Helena, Montana 59604/Telephone: (406) 444-2040/Toll Free 1-800-332-6148

TABLE OF CONTENTS

SUBJECT	PAGE
SUMMARY OF RECOMMENDATIONS	i
INTRODUCTION	1
SCOPE	1
BACKGROUND	3
NEW ACCOUNTING SYSTEM	4
USES OF THE CONTINGENT REVOLVING FUND	6
HAND CHECKS	6
CHECKS-WITH-ORDERS	6
COMPUTER CHECKS	6
SERVICE CHECKS	6
PROCEDURES FOR CHECKS-WITH-ORDERS	7
COMPLIANCE WITH CHECKS-WITH-ORDERS POLICY	8
AUTHORIZED SIGNATURES	9
INVOICE PAYMENTS	10
IMPROPER USE OF CHECKS-WITH-ORDERS	12
REVIEW OF INTERNAL CONTROLS	16
OVERPAYMENT FOR SUPPLIES	17
ADMINISTRATION OF CONTINGENT REVOLVING FUNDS	18
REDUCING TRANSACTIONS	19
UNRELATED AUDIT FINDING	20
CONCLUDING COMMENTS	21
UNIVERSITY ORGANIZATION CHART	22
REVOLVING FUND CHECK POLICY	23
CHECK-WITH-ORDER AGREEMENT	24

SUBJECT	PAGE
CHECK-WITH-ORDER PROCESS	25
REVOLVING FUND TRANSACTIONS	26
REVOLVING FUND INTEREST PAYMENTS	27
AVERAGE MONTHLY BANK BALANCES	28
UNIVERSITY RESPONSE	29

SUMMARY OF AUDIT RECOMMENDATIONS

RECOMMENDATION #1:

WE RECOMMEND THE INTERNAL AUDIT UNIT MAKE UNANNOUNCED VISITS TO CHECK CONTROLS EXERCISED OVER CHECKS-WITH-ORDERS BY THE DEPARTMENTS TO PREVENT FUTURE INSTANCES WHERE SIGNED BLANK CHECKS ARE LEFT IN UNSECURED AREAS WHEN NOT BEING USED OR ATTENDED.

University of Montana Response: Concur. See page 30

RECOMMENDATION #2:

WE RECOMMEND THE UNIVERSITY FOLLOW ITS OWN POLICY REGARDING THE CHECKS-WITH-ORDERS VIOLATIONS. IN COMPLIANCE WITH ESTABLISHED POLICY, WHEN A SECOND VIOLATION OCCURS, THE DEPARTMENT RESPONSIBLE SHOULD HAVE ITS CHECKS-WITH-ORDERS PRIVILEGES SUSPENDED.

University of Montana Response: Concur. See page 30

RECOMMENDATION #3:

WE AGAIN RECOMMEND THE INTERNAL AUDIT UNIT PERFORM UNANNOUNCED AUDIT PROCEDURES ON VARIOUS ASPECTS OF THE CHECKS-WITH-ORDERS SYSTEM, TO ASSURE PROCEDURES AND POLICIES ARE BEING FOLLOWED.

University of Montana Response: Concur. See page 30

RECOMMENDATION #4:

WE RECOMMEND THE UNIVERSITY REVISE ITS OPERATING POLICY TO ENSURE PROMPT PAYMENT OF INVOICES TO TAKE

ADVANTAGE OF DISCOUNTS WHEN THEY ARE OFFERED, AND ELIMINATE INSTANCES OF BILLS BEING PAID AND NOT TAKING ADVANTAGE OF OFFERED DISCOUNTS.

University of Montana Response: Concur. **See page 31**

RECOMMENDATION #5:

THE UNIVERSITY HAS A WRITTEN MANAGEMENT MEMO FROM THE FINANCIAL SERVICES DEPARTMENT GOVERNING THE PURCHASE OF OFFICE SUPPLIES. WE RECOMMEND THE FINANCIAL SERVICES DEPARTMENT AND INTERNAL AUDIT MONITOR PURCHASING OF OFFICE SUPPLIES AND ENFORCE THEIR POLICY, TO ELIMINATE PURCHASES OF SUPPLIES FROM MORE EXPENSIVE VENDORS EXCEPT IN CASES OF ACTUAL EMERGENCY.

University of Montana Response: Concur. **See page 31**

RECOMMENDATION #6:

WE RECOMMEND THE UNIVERSITY OBTAIN SERVICES OF THE NECESSARY PERSONNEL TO ASSIST THE CONTROLLER'S OFFICE IN RECOVERING FROM THE BACK LOG OF WORK CREATED BY THE CONVERSION TO THE COLLEGE AND UNIVERSITY FINANCIAL SYSTEM. THIS WOULD INCLUDE PERFORMANCE OF RECONCILIATIONS ON BANK STATEMENTS THAT HAVE NOT BEEN DONE DURING THE PAST FISCAL YEAR. IMPLEMENTATION OF THIS RECOMMENDATION WILL IMPROVE CONTROL OVER THE FUND AND PLACE THE UNIVERSITY IN COMPLIANCE WITH STATE POLICY.

University of Montana Response: Concur. See page 31

RECOMMENDATION #7:

WE RECOMMEND IN CONNECTION WITH RECOMMENDATION # 6, THAT THE UNIVERSITY REQUIRE DEPARTMENTS USING CHECKS-WITH-ORDERS COMPLY WITH POLICY BY SUBMITTING USED CHECKS-WITH-ORDERS ON A TIMELY BASIS. COMPLIANCE WITH ESTABLISHED POLICY WILL ASSIST THE CONTROLLER'S OFFICE WITH THE BANK RECONCILIATION PROCESS.

University of Montana Response: Concur. **See page 32**

RECOMMENDATION #8

WE RECOMMEND THE UNIVERSITY USE A TERMINATION FORM FOR EACH EMPLOYEE WHEN THEY TERMINATE SERVICE WITH THE UNIVERSITY. THIS PROCEDURE CAN BE USED BY THE PAYROLL OFFICE TO PERFORM A CHECK WITH ACCOUNTS RECEIVABLE FOR AMOUNTS OWING TO THE UNIVERSITY PRIOR TO ISSUING A FINAL PAYCHECK.

University of Montana Response: Partially Concur. **See page 32**

JL/blm(376)

INTRODUCTION:

The State Auditor's Office conducted a review of the University of Montana's use of their contingent revolving account established through the Montana Department of Administration in accordance with Section 17-2-201, MCA. The period under examination was the fiscal year ended June 30, 1988. We did however make some comparisons with activities from the prior fiscal year.

The objectives of our audit were:

1. to determine the compliance with state laws and regulations governing non-treasury cash accounts;
2. evaluation of the efficiency of the use of the checking account system;
3. evaluation of internal controls;
4. examine departmental practice for making small and/or emergency purchases;
5. determine needs of the university that might be incorporated into the new state warrant writing system; and
6. determine if the authorized balances for the accounts are appropriate.

SCOPE:

Our audit was conducted in accordance with generally accepted governmental auditing standards for operational

audits, and accordingly included such tests of university records and such other auditing procedures as we considered necessary in the circumstances. This audit did not include an examination of the financial schedules and we therefore express no opinion thereon.

This report is intended solely for the use of the management staff of the University of Montana, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, when accepted by the University of Montana, is a matter of public record.

We reviewed the use of the non-treasury cash revolving contingency funds maintained by the University of Montana to determine the extent of use and compliance with regulations established by the Department of Administration for the maintenance of cash accounts outside the state treasury. We also looked at specific uses of the four types of checks that are used by the University of Montana. Each of these types of checks will be addressed separately in other sections of this report.

We reviewed controls over checks-with-orders in eight departments on campus as well as the control procedures in the controller's office. As part of our field work in the eight departments, we made a judgmental sample of checks-with-orders to test. Our sample size in the departments visited range from 6.5% to 32% of the total transactions.

We reviewed the operational aspects of the controller's office concerning the use of the non-treasury cash accounts for the purpose of making recommendations to improve the system. As part of our review conducted in the controller's office, we examined a sample of claims presented to the controller for payment.

BACKGROUND:

The University of Montana was chartered by the Montana Legislature in 1893. University operations and controls are provided through the Montana Board of Regents of Higher Education. The President of the university directs the day-to-day operations.

The university controller's office is headed by the controller, who reports to the university director of financial services. The controller's office is responsible for the fiscal operations of the university including, accounts payable, accounts receivable, payroll, disbursement of student financial aid and general accounting. Exhibit I is an organizational chart of the university administration for additional details.

Section 17-2-201, MCA, provides authority to the Montana Department of Administration to authorize the establishment of non-treasury cash contingent revolving accounts for payment of demands requiring immediate payment. Examples of such expenditures are: emergency travel advances, pre-payment of

subscriptions and book orders, postage, freight charges, and invoices allowing a discount if paid within a specified period of time, too short to be paid through the state warrant system.

Section 17-2-201, MCA, also provides the Department of Administration with the authority to promulgate regulations for the establishment and use of the contingent revolving funds. The Department of Administration has developed regulations for the use of the revolving funds and they are found in the Montana Operations Manual, Chapter 2-1900.

The University of Montana has established contingent revolving funds at Missoula banks with an authorized fund balance of $305,000 as of March, 1988. The university has an internal operating policy governing the use of the contingent revolving fund. See exhibit II.

NEW ACCOUNTING SYSTEM

The university anticipated the implementation of a new accounting system, the College and University Financial System on July 1, 1986, however, because of problems encountered preparatory to the full implementation, the target date for using college and university financial system was changed to July 1, 1987. Further problems occurred when the software vendor notified the university that a newer version of college and university financial system would be available on April 1, 1987. The university decided to wait for the most updated version, believing that they could have college and university

financial system running for the beginning of fiscal year 1987-1988. However, the software was not delivered to the university until the end of June 1987, and transactions were first run through college and university financial system on August 19, 1987.

When the university began processing transactions through college and university financial system numerous problems were encountered with the system software and the operating hardware. The problems encountered resulted in external vendors not being paid for goods and service provided to the university in a timely manner. As university officials became aware of the problems of vendors not being paid, the university submitted a request to the Department of Administration for a temporary increase in the balance for the contingent revolving fund. This was approved by the Department of Administration. The university then used the contingent revolving fund to pay its obligations.

At the conclusion of our audit field work, the university was beginning to process transactions through the college and university financial system regularly without too many problems. University personnel indicated that additional staff would have made the conversion to the new accounting system much easier. Staff at the university believe that the college and university financial system, when fully implemented, will work well and provide the university with accurate accounting information on which to base financial decisions and operate the university.

The following section is intended as background information on the structure and use of the university's contingent revolving fund.

USES OF THE CONTINGENT REVOLVING FUND

The central account is maintained at a local Missoula bank. Four types of checks are drawn on this account for various purposes.

Hand Checks are used to pay university personnel if for some reason new employees, particularly students, payroll papers are not processed in time for a check to be issued with the regular monthly payroll.

Checks-with-orders are issued to university departments by the controller's office and countersigned by an authorized department official. The checks are to be used to purchase small and/or emergency supplies.

Computer checks are issued by the controller's office through the university computer center. They are similar to state warrants and are used to pay a wide variety of expenditures.

Service checks are only for student refunds and distribution of financial aid payments .

Since the checks-with-orders and computer checks represent the largest volume of use of the contingent revolving fund, the

majority of our comments will be concentrated in these areas. In the review made of the service checks and hand checks, nothing came to our attention that indicate major problems with those categories of checks.

Checks-with-orders are used by most of university departments. The checks-with-orders are a pre-numbered four-part form consisting of check-stock paper as the original and three carbonless copies to provide expenditure information for the accounting system. The checks are pre-signed by the treasurer of the university and countersigned at the time of issuance to a vendor. The checks are limited to a maximum of $300.00. The university has a written policy governing departmental use of the checks. The departments agree in writing to adhere to university policy when they request permission to use checks-with-orders.

PROCEDURES FOR CHECKS-WITH-ORDERS:

Departments wishing to use checks-with-orders prepare a request form supplying the required information, i.e. person(s) authorized to sign checks, number of checks requested and the department head's approval. The request is sent to the controller's office for approval. (see exhibit III).

Upon approval by the controller, the checks are issued to the department in the following manner. An employee in accounts payable "logs out" the number of pre-numbered checks requested in a log book. The person receiving the checks for

the requesting department initials the log book, acknowledging receipt of check numbers XXX-XXX. Exhibit IV flow-charts the checks-with-order process.

University policy requires the departments keep the unissued checks in a secure place. We found in two of eight departments visited instances where signed blank checks were left out on unattended desks where unauthorized personnel and students had access.

RECOMMENDATION #1:

WE RECOMMEND THE INTERNAL AUDIT UNIT MAKE UNANNOUNCED VISITS TO CHECK CONTROLS EXERCISED OVER CHECKS-WITH-ORDERS BY THE DEPARTMENTS TO PREVENT FUTURE INSTANCES WHERE SIGNED BLANK CHECKS ARE LEFT IN UNSECURED AREAS WHEN NOT BEING USED OR ATTENDED.

COMPLIANCE WITH CHECKS-WITH-ORDERS POLICY

During the audit we also found that a check issued to one department by the controller had been used by a different department. The practice makes supervision of the system by the controller's office difficult. Once the checks have been issued to a department, they should be used only by the department to which they were issued or returned to the controller's office.

University policy states, "If a department violates the intent of these policies, the department's checks-with-order authority will be denied." The audit revealed an instance where a department head consulted personnel in the financial services department and the controller's office as to the propriety of the issuance of a check-with-orders for the purpose of sponsoring a golf team. Both offices told the department head the use was improper. The check was still issued against university policy direction. The department that issued this checks-with-order is still using the checks-with-orders system.

RECOMMENDATION #2:

WE RECOMMEND THE UNIVERSITY FOLLOW ITS OWN POLICY REGARDING THE CHECKS-WITH-ORDERS VIOLATIONS. IN COMPLIANCE WITH ESTABLISHED POLICY, WHEN A SECOND VIOLATION OCCURS, THE DEPARTMENT RESPONSIBLE SHOULD HAVE ITS CHECKS-WITH-ORDERS PRIVILEGES SUSPENDED.

AUTHORIZED SIGNATURES

While we were visiting departments, we compared the countersignatures on copies of the checks-with-orders with the authorized signatures on file with the controller's office. In one department, we found during a period between September 15, 1987 and October 13, 1987, that only 7 of 24 checks issued by

the department had authorized signatures according to the signatures on file in the controller's office.

RECOMMENDATION #3:

WE AGAIN RECOMMEND THE INTERNAL AUDIT UNIT PERFORM UNANNOUNCED AUDIT PROCEDURES ON VARIOUS ASPECTS OF THE CHECKS-WITH-ORDERS SYSTEM, TO ASSURE PROCEDURES AND POLICIES ARE BEING FOLLOWED.

INVOICE PAYMENTS

The checks-with-orders system was designed by the controller's office in an effort to reduce the number of petty cash accounts on campus, which we believe is good policy. The original policy for checks-with-orders was adopted in July, 1982 and revised in January, 1984. We held interim discussions with university personnel concerning specific instances where we feel the university could improve its policy for checks-with-orders to prevent abuse of the checks-with-orders, violations of university and state purchasing policies. Staff in the controller's office told us they were in the process of reviewing the checks-with-order policy. Therefore, we will not make any recommendations relating to policy revisions at this time. We anticipate that our audit findings relating to checks-with-orders will assist the university in redefining policy.

One of the justifications for the maintenance of a contingent revolving fund is to take advantage of the discounts vendors offer for prompt payment. During the audit we found the following invoices, in one department, where the discount was lost because payment was not made within the specified time period.

TABLE I

Invoice Date	Amount	Discount Lost	Date to Receive Discount	Date of Actual Payment
07-24-87	$ 189.00	$ 3.78	10-10-87	11-24-87
07-28-87	324.00	6.48	09-10-87	11-24-87
08-24-87	189.00	3.78	11-10-87	11-24-87
09-03-87	126.00	2.52	10-10-87	11-24-87
10-02-87	189.00	3.78	*12-10-87	11-24-87
TOTALS	$1017.00	$20.34		

* ACCORDING TO THE CLAIM ON FILE, THE DISCOUNT PERIOD FOR THIS INVOICE WAS STILL IN EFFECT WHEN SUBMITTED FOR PAYMENT. HOWEVER, THE DISCOUNT WAS NOT TAKEN ACCORDING TO THE RECORDS.

RECOMMENDATION #4:

WE RECOMMEND THE UNIVERSITY REVISE ITS OPERATING POLICY TO ENSURE PROMPT PAYMENT OF INVOICES TO TAKE ADVANTAGE OF DISCOUNTS WHEN THEY ARE OFFERED, AND ELIMINATE INSTANCES OF BILLS BEING PAID AND NOT TAKING ADVANTAGE OF OFFERED DISCOUNTS.

IMPROPER USE OF CHECKS-WITH-ORDERS

In one department visited, we found possible violations of university policy as well as possible statutory violations through the use of checks-with-orders. Two of the instances involved the use of university funds to finance employee picnics. One check-with-order was issued for $50.00 as a deposit for the use of a park. The other check was issued for $10.00 for park rental fees. The deposit was refunded to the department after the picnic. Not only is this practice questionable from a policy stand point, the issuance of checks for improper activities create needless financial transactions for the university.

In the same department as above, we found they had issued a check to an individual for the prepayment of a registration fee and made the check payable to a private individual.

Payments to individuals and prepayment of expenses with checks-with-orders violate university policy.

We found instances in other departments where bills for labor charges for services received by the university had been paid with checks-with-orders. The audit detected some departments violating university policy by placing orders with vendors that total more than the $300.00 limit on checks-with-orders. When the departments received the order, they simply wrote the number of checks necessary to pay the vendor for the order. For example, department X needs 12 items costing $45.00 each. The total order is $540.00. In order to use checks-with-orders and circumvent university purchasing procedures, the department issues two checks for $270.00 each. This practice creates twice the number of transactions as needed for one purchase.

We suggest the university consider these problems when revising checks-with-orders policy. We suggest that the controller's office follow a policy that has been in effect in the past, of suspending a department's privilege of checks-with-orders for a period of time when found to be violating policy relating to checks-with-orders.

In the general review of checks-with-orders for compliance with the intent and purpose, we found that the a number of items we examined, might have been acquired through a different method that could have been more efficient.

The following table lists expenditures via checks-with-orders, that for the reason beside the expenditure do not meet established university criteria:

For the purposes of interpreting the information on the following table, the following definitions apply:

Emergency - a need within a 24 hour period, or cannot be purchased through normal purchasing procedures.

Non-Routine - item purchased infrequently or items used in special circumstances.

Small - item or items with a purchase value of $300 or less.

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TABLE II

Nature of Expenditure	Amount	Exception
Sponsor Golf Team.	$ 35.00	checks-with-orders may not be used for prepayment of expenses.
Labor Charges.	19.00	Personal services are not allowable.
Purchase food items, i.e., frying shortening, granulated sugar, pancake mix, cereal items, tomato paste, etc.	various amounts	These do not meet requirements of an emergency or a non-routine purchase.
Advanced registration for conference.	50.00	This represents a prepaid expense - they are not allowed with checks-with-order.
Payment of Refunds.	various amounts	While this is not a direct policy violation, the university has a refund process. It should be followed. Use of checks-with-orders indicate on the surface an expense was incurred. There is a risk the transactions may be recorded as an expense resulting in an overstatement of expenses.

In a later section of this report, we will discuss possible ways to reduce the number of checks-with-orders transactions. According to records in the controller's office, between July 1, 1987 and May 6, 1988, 4249 checks-with-orders had been issued. In fiscal year 1986-87, 3797 checks-with-orders were issued.

The controller's office estimates that it costs the university fifteen dollars to process each financial transaction. According to that cost estimate, checks-with-orders issued, as of May 6, 1988, cost the university $63,735.00. We believe that this number could be reduced by at least 50%, a savings of $31,868.00 to the university, through proper planning and ordering at the department level.

REVIEW OF INTERNAL CONTROLS:

As part of our audit, we reviewed internal controls in the areas relating to the use of the contingent revolving fund. We found weaknesses or concerns in the following areas:

1. departments not keeping checks-with-orders in secured places;

2. employees terminating employment with the university without a termination notice being prepared. We found one employee that was terminated, received their final paycheck and owed the university money; and

3. departments do not advise the controller's office of expenditures made through checks-with-orders in a timely basis creating bank reconciliation problems and risk of improper recognition of expenditures at year-end.

POSSIBLE OVER PAYMENT FOR PURCHASE OF SUPPLIES

During the audit, we found instances where departments purchased office supplies from local vendors instead of through the office suppliers section of the bookstore or the U of M printing services for copy paper, letterhead, etc. In one case, a department purchased copy machine paper for $6.46 per ream when it is available through the State Supply Bureau for $2.44 per ream. This transaction indicates that the university may, in some cases, be paying more for its supplies than necessary. In this case, a department paid more than two and one half times the amount needed to purchase copy machine paper.

RECOMMENDATION #5:

THE UNIVERSITY HAS A WRITTEN MANAGEMENT MEMO FROM THE FINANCIAL SERVICES DEPARTMENT GOVERNING THE PURCHASE OF OFFICE SUPPLIES. WE RECOMMEND THE FINANCIAL SERVICES DEPARTMENT AND INTERNAL AUDIT MONITOR PURCHASING OF OFFICE SUPPLIES AND ENFORCE THEIR POLICY, TO ELIMINATE PURCHASES OF SUPPLIES FROM MORE EXPENSIVE VENDORS EXCEPT IN CASES OF ACTUAL EMERGENCY.

GENERAL ADMINISTRATION OF THE CONTINGENT REVOLVING FUND

Department of Administration policy requires that reconciliations be performed on the bank statements monthly. The controller's office indicates that no reconciliations had been performed during the fiscal year ended June 30, 1988 because of the reduced number of FTE in the controller's office and the extra work load created by the conversion to the new accounting system.

While we can appreciate the problems the university has had over the past eighteen months. We feel the bank reconciliations should be performed however, particularly in view of the large volume of transactions processed through the contingent revolving fund. Exhibit V is a listing of the estimated transaction volume for the contingent revolving fund for the two fiscal years ended June 30, 1988.

RECOMMENDATION #6:

WE RECOMMEND THE UNIVERSITY OBTAIN SERVICES OF THE NECESSARY PERSONNEL TO ASSIST THE CONTROLLER'S OFFICE IN RECOVERING FROM THE BACK LOG OF WORK CREATED BY THE CONVERSION TO THE COLLEGE AND UNIVERSITY FINANCIAL SYSTEM. THIS WOULD INCLUDE PERFORMANCE OF RECONCILIATIONS ON BANK STATEMENTS THAT HAVE NOT BEEN DONE DURING THE PAST FISCAL YEAR. IMPLEMENTATION OF THIS RECOMMENDATION WILL IMPROVE CONTROL OVER THE FUND AND PLACE THE UNIVERSITY IN COMPLIANCE WITH STATE POLICY.

RECOMMENDATION #7:

WE RECOMMEND IN CONNECTION WITH RECOMMENDATION # 6, THAT THE UNIVERSITY REQUIRE DEPARTMENTS USING CHECKS-WITH-ORDERS COMPLY WITH POLICY BY SUBMITTING USED CHECKS-WITH-ORDERS ON A TIMELY BASIS. COMPLIANCE WITH ESTABLISHED POLICY WILL ASSIST THE CONTROLLER'S OFFICE WITH THE BANK RECONCILIATION PROCESS.

REDUCTION OF THE NUMBER OF FINANCIAL TRANSACTIONS:

We have discussed in previous sections of this report activities that have contributed to an increase in the number of financial transactions that must be processed by the controller's office. The following are some suggestions we believe will assist the university in reducing the number of daily transactions:

1. batching invoices from vendors so that only one warrant is issued per vendor;
2. establishment of revolving charge accounts with vendors so payments may be made monthly instead of being made each time a single purchase is made;
3. require departments that purchase large quantities of merchandise on a routine basis to secure bids and issue state purchase orders when possible to limit small and infrequent purchases;

4. request the internal audit unit perform periodic reviews of departments' purchasing practices to ensure compliance with university and state policy;
5. tighten the use of checks-with-orders to specific classes of purchases.

UNRELATED AUDIT FINDING:

During our audit a situation came to our attention requiring the review of employee payroll records and accounts receivable records. As a result of our review, we discovered that a terminated employee had received their final paycheck and still owed the University Dental Service $20.00.

RECOMMENDATION # 8

WE RECOMMEND THE UNIVERSITY USE A TERMINATION FORM FOR EACH EMPLOYEE WHEN THEY TERMINATE SERVICE WITH THE UNIVERSITY. THIS PROCEDURE CAN BE USED BY THE PAYROLL OFFICE TO PERFORM A CHECK WITH ACCOUNTS RECEIVABLE FOR AMOUNTS OWING TO THE UNIVERSITY PRIOR TO ISSUING A FINAL PAYCHECK.

CONCLUDING COMMENTS:

The types of exceptions found during the audit of the University of Montana are individually not too serious. However, collectively they represent need for greater emphasis on internal operating policies and procedures. We want to emphasize the need for efficient and effective administrative controls particularly in times of fiscal constraints.

We feel that the seven recommendations contained in this report will assist the university in improving internal operations. We believe that the university can save a substantial amount of money by reducing the number of financial transactions in day-to-day operations.

EXHIBIT I

ORGANIZATION CHART
Vice President for Administation & Finance

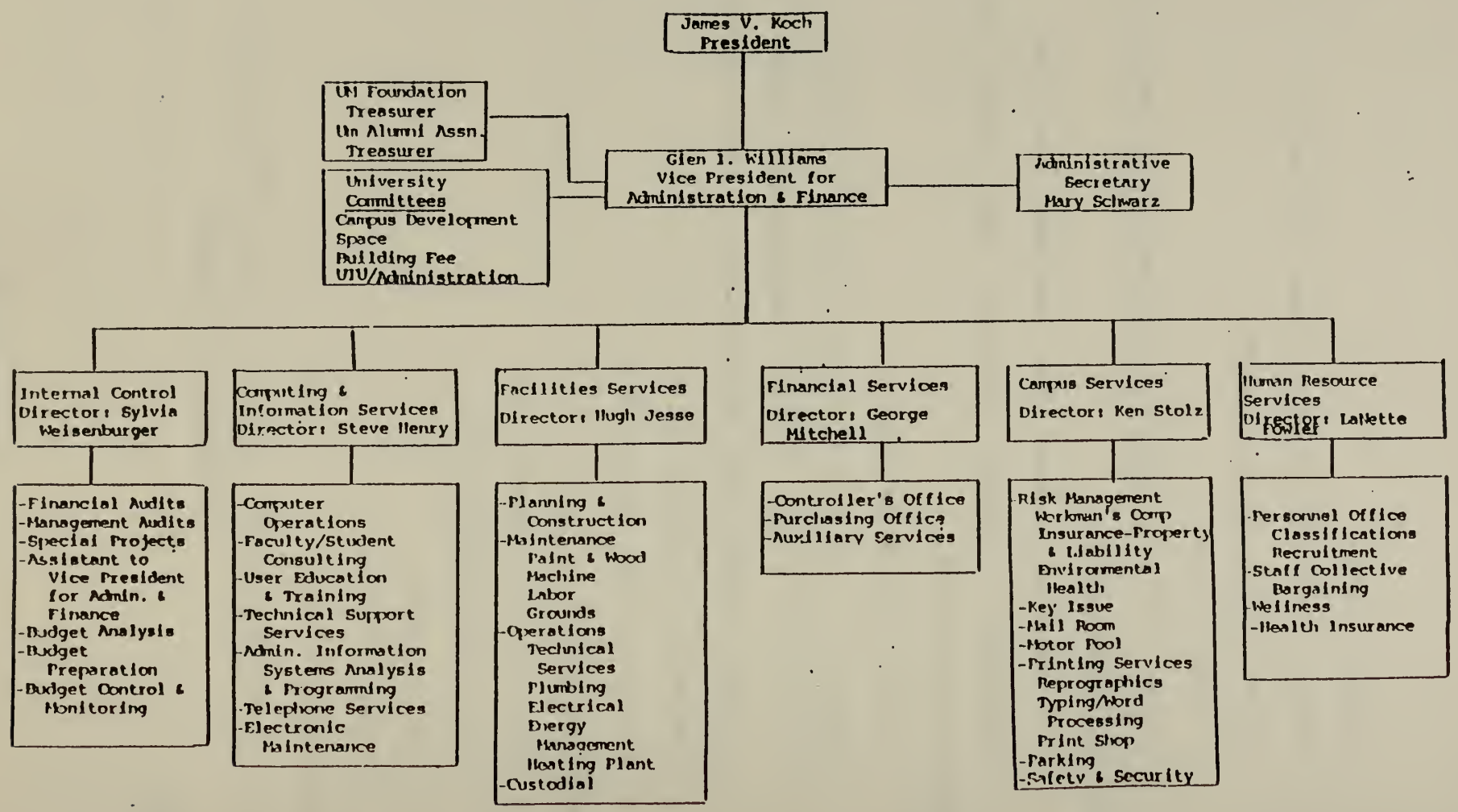


EXHIBIT II

2/9/88

UNIVERSITY OF MONTANA

Accounts Payable Revolving Fund Check Criteria

1. Prepayments

   a. Subscriptions

   b. C.O.D. orders

   c. Conference registrations

   d. Hotel advance reservations

2. Vendor Payments

   a. Invoices older than 30 days

   b. Discount of $2.50 or more

   c. Freight charges (must be paid within 7 days per ICC regs)

   d. Utility bills when invoice must accompany check

   e. Payments involving adjusted invoice amounts and invoice copy should accompany check

3. Contract Obligations

   a. Independent contractor payments when payment upon completion of services is specified (referees, musicians)

4. Reimbursements/Refunds

   a. Travel claim of $25.00 or more when employee has not received travel advance

   b. Job applicant travel expense

   c. Entertainment reimbursement when cash advance not received

   d. Student refunds

EXHIBIT III

CHECK-WITH-ORDER PROCESS AGREEMENT

I request that the _____ Department (R/C_____) be permitted to participate in the "Check-With-Order Process" and thereby be entitled to receive a maximum number of _____individual blank check-with-order forms, each of which may be used in payment for any amount up to a maximum of three hundred dollars. It is understood and agreed that said participation is authorized and is contingent upon continued compliance with the following conditions:

1. That the person(s) authorized to complete, sign and use the check-with-order forms received shall be specifically limited to the following individual(s):

   _____

   _____

2. That check-with-order forms shall be used only for nonrecurring purchases of $300 or less of minor equipment and/or supplies and will not be cumulated for larger purchases or used for payment of personal services, travel, or entertainment expenses.

3. That replacement of check-with-order forms which have been used may be requested at any time up to the original number issued.

4. That lost or misplaced check-with-order forms must be charged as a cash expenditure against the department to which they were issued for the full amount of $300 each until they have been recovered, or for the full amount for which they were written if they are determined to have been used.

5. That misuse of any check-with-order form will result in a charge against the department to which the document was issued equivalent to the amount for which the document was used regardless of the circumstances, and may result in discontinuance of participation in the check-with-order process as well as individual liability of those found to be at fault.

REQUESTOR: Signature:_____

Name Typed:_____

Title:_____

Date:_____

APPROVAL: Signature:_____

Name Typed:_____

Title:_____

Date:_____

CONTROLLER'S OFFICE APPROVAL: Signature:_____

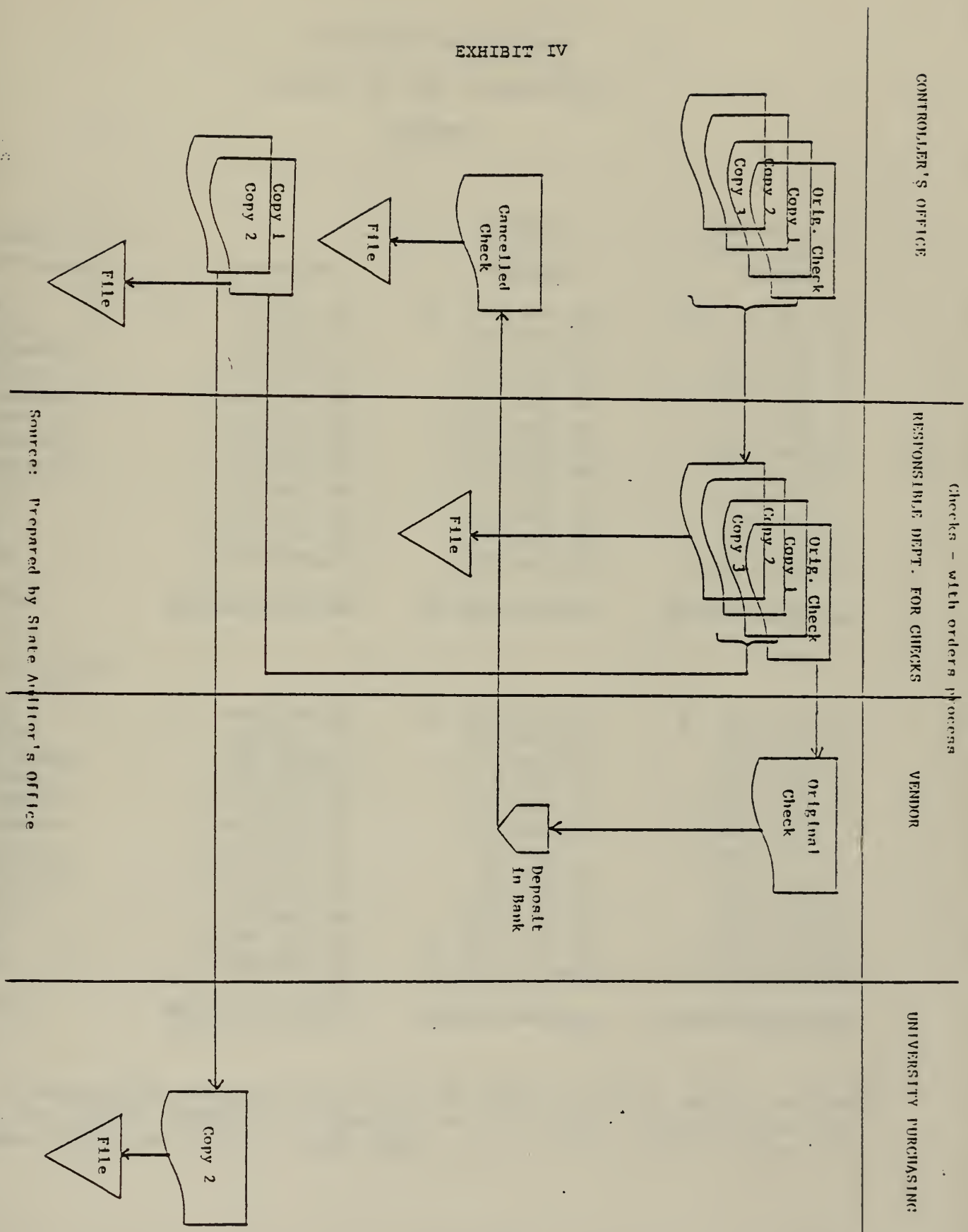
Name Typed:_____

Title:_____

Date:_____

Funds Approval:_____

EXHIBIT IV



Source: Prepared by State Auditor's Office

EXHIBIT V

UNIVERSITY OF MONTANA

SCHEDULE OF CRF TRANSACTION

VOLUME

Month FY 86 - 87	Deposits	Average Monthly Balance	Estimated Transaction Volume
July	$ 167,554.90	$ 116,577.38	$ 50,977.52
August	235,981.77	105,245.58	130,736.19
September	419,414.52	134,734.83	284,679.69
October	1,365,437.26	120,854.83	1,244,582.43
November	1,152,101.99	137,833.69	1,014,268.30
December	1,883,543.56	181,698.45	1,701,845.11
January	893,128.56	47,723.08	845,405.48
February	1,710,960.86	147,806.89	1,563,153.97
March	907,820.86	63,729.42	844,091.44
April	813,859.58	58,970.17	754,889.41
May	1,373,674.21	126,247.31	1,247,426.90
June	1,370,444.49	120,433.21	1,250,011.28
TOTALS	$12,293,922.56	$1,361,854.84	$10,932,067.72
FY 87 - 88			
July	$ 469,705.38	$ 138,386.83	$ 331,318.55
August	235,981.77	108,450.04	127,531.73
September	358,025.50	54,546.45	303,479.05
October	1,475,929.41	137,596.61	1,338,332.80
November	1,172,101.99	46,679.11	1,125,422.88
December	1,852,208.81	109,688.64	1,742,520.17
January	1,825,422.33	65,245.16	1,760,177.17
February	1,881,445.36	98,799.92	1,782,645.44
March	907,820.86	120,711.53	787,109.33
April	813,858.60	191,696.54	622,162.06
May	1,075,166.46	1/ 107,175.58	1/ 967,990.88
June	954,091.88	1/ 107,175.58	1/ 846,916.30
TOTALS	$13,021,758.35	$1,286,151.99	$11,735,606.36

1/ INFORMATION WAS UNAVAILABLE AT THE TIME OF FIELD WORK. WE USED THE TEN MONTH AVERAGE TO COMPUTE THE ESTIMATED DOLLAR VOLUME OF TRANSACTIONS FOR MAY AND JUNE 1988.

(300)

EXHIBIT VI

UNIVERSITY OF MONTANA
SCHEDULE OF INTEREST PAYMENTS ON THE CRF
TO THE STATE TREASURY

MONTH	FY '86 - '87	FY '87 - '88
July	$ 746.28	$ 921.68
August	674.75	641.06
September	935.22	589.11
October	938.49	1007.85
November	933.62	701.13
December	1002.13	1224.07
January	713.82	1019.49
February	874.68	970.65
March	697.99	1320.69
April	634.91	1206.05
May	848.56	*
June	904.03	*
TOTAL INTEREST PAID	$9,904.48	$9,601.78

*Unavailable at the time of our field work

Source: U of M Controller's Office Records

EXHIBIT VII

UNIVERSITY OF MONTANA
SCHEDULE OF [1]NET AVERAGE MONTHLY BANK BAL.

MONTH	FY '86 - '87	FY '87 - '88
July	$ 116,577.38	$ 138,368.83
August	105,245.58	108,450.04
September	134,734.83	54,546.45
October	120,854.83	137,569.61
November	137,833.69	46,679.11
December	181,698.45	109,688.64
January	47,723.08	65,245.16
February	147,806.89	98,799.92
March	63,729.42	120,711.53
April	58,970.17	191,696.54
May	126,247.31	*
June	120,433.21	*
TOTAL:	$1,361,854.84	$1,071,755.83
YEARLY AVERAGE:	$ 113,487.90	$ 107,175.58

[1]Net balance is the statement average balance less allowance for uncollected funds

*Unavailable at the time of our field work

Source: U of M Controller's Office Bank Records

JL/blm(296)

University of Montana
Budget Office • Missoula, Montana 59812 • (406) 243-5661

November 14, 1988

Andrea "Andy" Bennett
State Auditor
Room 270 Mitchell Building
P.O. Box 4009
Helena, Montana 59604

RE: Audit Responses

Enclosed please find the University of Montana's responses to the Limited Scope Audit of Operations and Controls of the University Center Commissary and the Limited Scope Operational Audit - Contingent Revolving Funds for Fiscal Year 1987-1988.

Please contact me if you have any questions regarding these responses.

Sincerely,

Sylvia Weisenburger
Vice President for
Administration and Finance (Acting)

SW/sb

cc: Mr. Jack Noble, Deputy Commissioner for Management and Fiscal Affairs

Equal Opportunity in Education and Employment

RECOMMENDATION #1

WE RECOMMEND THE INTERNAL AUDIT UNIT MAKE UNANNOUNCED VISITS TO CHECK CONTROLS EXERCISED OVER CHECKS-WITH-ORDERS BY THE DEPARTMENTS TO PREVENT FUTURE INSTANCES WHERE SIGNED BLANK CHECKS ARE LEFT IN UNSECURED AREAS WHEN NOT BEING USED OR ATTENDED.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. The Internal Audit Office checks policies and controls exercised over check-with-orders and other cash items on a regular basis. Internal Audit checked the security of check-with-orders during the Petty Cash Audit in July of 1987. This is a reoccurring audit and will continue to be checked in the future as it has been in the past.

RECOMMENDATION #2

WE RECOMMEND THE UNIVERSITY FOLLOW ITS OWN POLICY REGARDING THE CHECKS-WITH-ORDERS VIOLATIONS. IN COMPLIANCE WITH ESTABLISHED POLICY, WHEN A SECOND VIOLATION OCCURS, THE DEPARTMENT RESPONSIBLE SHOULD HAVE ITS CHECKS-WITH-ORDERS PRIVILEGES SUSPENDED.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. The University is currently reviewing and revising the Check-With-Order policy. In the revision, violations of policy and their corresponding penalty will be clearly stated and adhered to.

RECOMMENDATION #3

WE AGAIN RECOMMEND THE INTERNAL AUDIT UNIT PERFORM UNANNOUNCED AUDIT PROCEDURES ON VARIOUS ASPECTS OF THE CHECKS-WITH-ORDERS SYSTEM, TO ASSURE PROCEDURES AND POLICIES ARE BEING FOLLOWED.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. The Internal Audit office will continue to perform audits on the procedures and policies as they relate to check-with-orders in the various departments as they have in the past.

RECOMMENDATION #4

WE RECOMMEND THE UNIVERSITY REVISE ITS OPERATING POLICY TO ENSURE PROMPT PAYMENT OF INVOICES TO TAKE ADVANTAGE OF DISCOUNTS WHEN THEY ARE OFFERED, AND ELIMINATE INSTANCES OF BILLS BEING PAID AND NOT TAKING ADVANTAGE OF OFFERED DISCOUNTS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. It has been and will continue to be the policy of the University to promptly pay invoices and take advantage of discounts when they are offered. Every effort will be made to ensure that this policy is followed.

RECOMMENDATION #5

THE UNIVERSITY HAS A WRITTEN MANAGEMENT MEMO FROM THE FINANCIAL SERVICES DEPARTMENT GOVERNING THE PURCHASE OF OFFICE SUPPLIES. WE RECOMMEND THE FINANCIAL SERVICES DEPARTMENT AND INTERNAL AUDIT MONITOR PURCHASING OF OFFICE SUPPLIES AND ENFORCE THEIR POLICY, TO ELIMINATE PURCHASES OF SUPPLIES FROM MORE EXPENSIVE VENDORS EXCEPT IN CASES OF ACTUAL EMERGENCY.

RESPONSE:

THE UNIVERSITY CONCURS WITH THIS RECOMMENDATION. The University is reviewed annually by State Purchasing to see that we are in compliance with purchasing policy and procedures. The check-with-orders are also reviewed by the Purchasing Office. The University will continue to make an effort to correct all violations as they are discovered.

RECOMMENDATION #6

WE RECOMMEND THE UNIVERSITY OBTAIN SERVICES OF THE NECESSARY PERSONNEL TO ASSIST THE CONTROLLER'S OFFICE IN RECOVERING FROM THE BACK LOG OF WORK CREATED BY THE CONVERSION TO THE COLLEGE AND UNIVERSITY FINANCIAL SYSTEM. THIS WOULD INCLUDE PERFORMANCE OF RECONCILIATIONS ON BANK STATEMENTS THAT HAVE NOT BEEN DONE DURING THE PAST FISCAL YEAR. IMPLEMENTATION OF THIS RECOMMENDATION WILL IMPROVE CONTROL OVER THE FUND AND PLACE THE UNIVERSITY IN COMPLIANCE WITH STATE POLICY.

RESPONSE:

THE UNIVERSITY CONCURS WITH THIS RECOMMENDATION. The Controllers's office currently has obtained the services of temporary personnel to assist with the back log of work created by the conversion to the College and University Financial System. The Controller's Office staff is in the process of reconciling the bank statements for fiscal year 1988 and placing the University in compliance with state policy.

RECOMMENDATION #7

WE RECOMMEND IN CONNECTION WITH RECOMMENDATION # 6, THAT THE UNIVERSITY REQUIRE DEPARTMENTS USING CHECKS-WITH-ORDERS COMPLY WITH POLICY BY SUBMITTING USED CHECKS-WITH-ORDERS ON A TIMELY BASIS. COMPLIANCE WITH ESTABLISHED POLICY WILL ASSIST THE CONTROLLER'S OFFICE WITH THE BANK RECONCILIATION PROCESS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THIS RECOMMENDATION. The University's revised check-with-order policy will address the timely submission of check-with-orders. The departments will be encouraged to submit check-with-orders on a timely basis or risk the penalty for noncompliance. Timely submission of check-with-orders will be monitored as closely as possible with the limited staff and resources available.

RECOMMENDATION #8

WE RECOMMEND THE UNIVERSITY USE A TERMINATION FORM FOR EACH EMPLOYEE WHEN THEY TERMINATE SERVICE WITH THE UNIVERSITY. THIS PROCEDURE CAN BE USED BY THE PAYROLL OFFICE TO PERFORM A CHECK WITH ACCOUNTS RECEIVABLE FOR AMOUNT OWING TO THE UNIVERSITY PRIOR TO ISSUING A FINAL PAYCHECK.

RESPONSE:

THE UNIVERSITY PARTIALLY CONCURS WITH THIS RECOMMENDATION. The University currently uses a termination form for faculty and staff before issuing their final paycheck. The University also has a check-out sheet for terminating faculty and staff that prompts the employee to return and/or pay for all outstanding business with the University. It is not feasible to have a termination form for the student employees due to constant turnover. Because of limited staff, payroll cannot do a thorough check on every terminating student employee. The University has a student receivable system and makes every effort to collect receivables from all students.

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